



“Can Fin Homes Limited Investor Conference Call”

With Axis Mutual Fund

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MANAGEMENT: MR. SURESH IYER – MD & CEO, CAN FIN HOMES LIMITED

Interviewer: So, just firstly, on the e-Khata and the Telangana issue, which has impacted investments in the recent quarters, so, what is the update on this? And secondly, what is the timeline that we expect that this digitization of property will get resolved in a local municipal area? Is the issue related to the Telangana HYDRA? Is it fully solved? Because many of the other companies have been highlighting the same issue.

Suresh Iyer: So, I will take one by one. The first thing is about this e-Khata. So, in the case of e-Khata, actually, there has been, it's more of an operational problem from the government side, it looks like, because, you know, they did want to try to put some additional people, but somehow it still didn't pick up. But now at least off late a little bit of movement has started happening particularly in the BBMP, that is the Corporation limit areas. They have still not started issuing e-Khatas for the Panchayat properties or for the properties which were on the periphery areas and all. But within the Corporation limits, some e-Khatas have started coming in. So, that is something which should get sorted out maybe as we proceed. That is one thing.

In terms of the demand per se, there is no issue I feel in the demand because, you know, the people have still been making applications for e-Khata. So, people still have been making applications and the demand is still there. It's only that once it starts coming in, once the e-Khatas are issued, then this will become much more simpler. And to some extent, this e-Khata issue has also affected the new launches, the new bookings and everything because customers have to take the e-Khata even for new properties and registration before the registration happens.

So, once this is sorted out and they also start one, you know, the speed picks up for the corporation areas. And two, once they open up, in our case, about 40% of the business comes from the periphery areas and franchise areas. So, there also, once they start opening up and start releasing, then we can say our business will be back to normal.

But having said that, today, we were doing about 275 crore per month in Karnataka. That came down to about 150 crore or 160 crore in the month of October, November. January, since now that slowly some trickle has started and some this thing, so, we are back to around, we just about touched 200 crores.

Interviewer: But January in general is also a strong one.

Suresh Iyer: It is a strong one, but at least 200 we were, so, that is some 50, 150, 100. We have been able to push it up to 200 crores in the month of January. By March, at least, we should be back to, if not 275, at least 250 crores. We should be back to 250 crores in terms of the disbursements in Karnataka. So, that is something which is there.

Management: Sir, another thing is that in comparison to what our performance was on January 24 or January 25, as we have exceeded it by around 100 crores.

Suresh Iyer: Across and company as a whole.

Management: Company as a whole.

Interviewer: Okay. So, overall disbursements? Yeah.

Suresh Iyer: Compared to it is better that January has been a little, thanks to this and all, a bit better than December and also better than previous year of January.

Interviewer: Okay.

Suresh Iyer: So, that is one thing. In terms of Hyderabad or rather Telangana per se, this problem is still there because I think it will take a little longer because the sentiment itself is affected.

Here sentiment is not affected in Karnataka. It's only that people realize it's going to take time. This process is a little cumbersome. We have to submit more documents, and it's one more paper which has to be completed and it is there. And even the 12 lakh applications which are come are not necessarily for new registration. Many customers know that they have to take e-Khata to perfect their security. So, now they are also applying. So, not necessarily that 12 lakh customers are in waiting to take a loan. Okay.

But in case of Hyderabad, it's a little different because they went about and demolished some properties without any prior discussion or anything. And that also in case of some projects which are properly approved by the previous government. Just by claiming that this is on lake or lake bed or it is on government land and stuff like that. So, there, you know, the entire fear is there in the people that, you know, this might affect what if their property or what they are now purchasing also comes under lake bed. How do they certify that it is not under lake bed?

So, those kind of sentiments are hurting the overall market. So bookings are down and new projects are less. So, in Telangana, it will take a much longer time. Here, if operationally they are able to handle the e-Khata matter, again business will be back to normal. But in Telangana, the sentiment is a little negative. People are scared. So, it will take a much longer time.

So, this year, barring, Telangana, all other zones will be positive by the end of the year. Two of the six zones are already in January crossed their previous year figure in terms of disbursement. Another third zone, that is North in Tamil Nadu.

West is almost on the verge of win. So, this month that will also cross. And if 200-250 crores we are able to do in February and March, then even Karnataka will be positive in spite of us losing 100-150 crores every month in terms of disbursement for six months. That also will be positive. And that leaves Andhra Pradesh, which also after this change of government has started looking, their sentiment is improving by the day. So, there also we will be positive.

So, only problem will be Telangana, which last year we had done about 1,700 crores, 1,750 crores or something we did last year in the entire year in Telangana. Now, because of this, this

year we will be touching somewhere around 1,200 crores. We are at 1,000 crores in end of January. We should be somewhere around 1,200-1,250 I would say in the month of by March end in Telangana, which is a good 30-33% drop in Telangana, which is why our maximum business is affected.

So once, you know, but having reached this kind of a level of 100 crores a month, we will definitely, you know, next year should look positive because this is the number which is like almost half of what we used to do earlier.

Interviewer: In the Telangana specifically, given that most of these disbursements would also be coming on the back of the loan which were taken earlier, so, in terms of customer addition, how that traction is there as it...?

Suresh Iyer: In Telangana?

Interviewer: Yes.

Suresh Iyer: Telangana customer addition, obviously, the numbers have come down. Even new customer flow is much less. We have, of course, where we have taken an exposure, we don't mind taking a top-up loan. But new customer inflow and enquiries has definitely come down.

Interviewer: And is it specific for all the institutions like banks, NBFC, HFC, or is it only for the NBFCs?

Suresh Iyer: No, it's for everyone. Everyone will be affected by this HYDRA because overall sentiment in the market is down. New bookings. In fact, we had to about a month or two months, the government finally said at least we will not do any more demolition. If we find that there is some irregularity, some construction on lake bed, we will transfer it to the environment department or something. So, at least they said we will stop demolition. So, that has at least cooled down a little bit. But otherwise, till the time they don't clear, saying that this area is clean and there is no construction on lakebed, that area also will not start developing.

Interviewer: But what about these premium developers like Brigade, Prestige? Because they in that particular belt are doing quite good. So, they are not facing these kind of challenges.

Suresh Iyer: I am sure in Telangana, everybody is facing that. Because unless the government is able to give a clean chit, saying that this area you can go ahead, till that time only those areas will start developing. And right now they have not completed the entire city, state for this lake bed and all those things.

Interviewer: But because of the slower disbursement is one thing, but because of the sentiments, are you even seeing an increase in the delinquencies in Telangana?

Suresh Iyer: We had a little bit of increase in Telangana delinquencies because yes, there are issues. Because the moment the cash flow stops, that is impacting a little bit. But it is not still a very high. Even today, our gross NPA in Telangana is much less. It is below 1% only. It is 0.7, 0.8% only. It is not a very high number, but still, you know, it has slightly been affected.

Interviewer: Because a similar thing happened in Tamil Nadu. The Repco Finance at that point of time did face a lot of issues. Their NPA had shot up in the last segment especially, they had moved up to 4-5%. So, are we seeing that kind of situation where...?

Suresh Iyer: No, no. As I said, it's still below 0.75% in Telangana, the NPA. But delinquencies have improved. In fact, we have seen much better days in Telangana. It used to be less than 0.5%. Now it is a little bit more.

Interviewer: So, incremental services are still less than 1%.

Suresh Iyer: Yes, yes.

Interviewer: Okay. And in Karnataka, the problem seems to be very transient.

Suresh Iyer: Yes.

Interviewer: I mean, it's likely that one more application is like you said, one more paperwork.

Suresh Iyer: Yes. And one more quarter, I think, things should look much better. Because, you know, one quarter has already gone by. This is the second quarter. Already BBMP has started. Some flows have started. Businesses have started picking up. If they, you know, in the next two months, February and March, if they are able to open up for the Gram Panchayat and the periphery areas, I think that should ease a lot of and give a lot of (comfort 00:10:25).

Interviewer: So, in Karnataka, currently, the issue only seems to be at the municipality level, not at the, in general, the BDA level or the Corporation.

Suresh Iyer: Corporation BBMP has started. It has now started. In January...

Interviewer: So, BDA, BBMP, it's still...

Suresh Iyer: No, BBMP has started. They have started issuing. Other areas that Urban Development Authority and all, BDA and all and Panchayat areas particularly, it has not started.

Interviewer: And what could be the possibility gap? I mean, why is there a gap like BBMP and BDA started, but Panchayat is still lagging? What is the operational gap?

Suresh Iyer: It's not an operational gap. Slowly, slowly they are putting more people. So, they said they will put 300 people. So, probably all of them have been put in the Corporation areas and Sub-Registrar Offices. Other areas also, I think they will be putting the manpower and it should start the operation.

Interviewer: So, it's nothing to do related to A Khata, B Khata, property document, etc., in that particular area.

Suresh Iyer: No. So, B Khata are places which are definitely little dicey, that where people have taken a risk, there it will be really a problem. But thankfully, we have always been careful that we have always had a clear title and all those things.

So, that's not been a problem where we have taken risk in terms of legal deviations or legal calls. We have not taken those kind of legal calls and all. So, we are not much worried about it. It's only a matter of time. So, some customers may not want to, may not go there and take a e-Khata right now, but whenever this happens, they will go and get done.

For customers who are intending to either transact the property, then they will have to immediately get it done. Because other than that, without the e-Khata, the registration is not going to happen. But say I have already purchased a property, I am living there, I just need to get the e-Khata to perfect my security or to ensure that whenever I want to sell, then I can always wait. I will do it maybe six months before I want to sell or once I decide I want to sell. I will apply first for it and take it.

Interviewer: And the situation with respect to delinquencies in Karnataka is you are also, there are other things also, right? Maybe the microfinance also are struggling in that area versus...

Suresh Iyer: There was that recent statement by the Chief Minister also that, you know, and that has resulted in some problems. So, microfinance, yes. There was an article recently that even the Ujjivan, some place, they issued an arrest warrant and all those things.

So, I know, so that is happening, but it is in some of the areas where it is more prevalent. So far, one or two areas only where we are having branches, where we have faced some kind of customers threatening. But then we are not a microfinance. So, we just have to clarify.

In one case, the customer also went to the police station and tried to file a case and everything. We had to go show everything. And then the whole day was lost for our branch manager, but nothing happened. They understood and they released. Nothing was done. No action was taken. And life was normal. But some places where the penetration of microfinance companies is very high, those areas, some issues have happened.

Interviewer: It's quite high in neighboring Bangalore cities like Kanakapur.

Suresh Iyer: Bidadi, Ramanagar and Mandya.

Interviewer: Are you seeing any delinquency increase in those districts?

Suresh Iyer: No, it is too early because this happened last month. But by and large, we don't have much of a, you know, in fact, Karnataka, among all the zones today, our Karnataka recovery is the best. In terms of percentage, I think it would be even less than 0.5. So, as of now...

Interviewer: And delinquency is also stable in Karnataka. There is no...

Suresh Iyer: No.

Interviewer: Except for the seasonality, where anyway Q4 is very strong, there is no uptake in the Karnataka.

Suresh Iyer: No, no, no. Only Telangana, both in terms of disbursement and consequently a little bit in terms of delinquency, slightly higher. But otherwise, other places we are not seeing much. In fact, we should be quite comfortable in other places.

Interviewer: On the overall, at the company level, Q4 is anyway stronger, but on a Y-on-Y level, are we expecting improvement in the delinquency or?

Suresh Iyer: See, from 2021, barring the COVID restructuring where everything was brought down, because restructuring was offered, by and large, if you see the NPA levels have been at around 0.9%. So, in quarters like Q4 or before September and all, the delinquencies come down. More pressure is exerted. It comes down. But again, it bounces back to 0.9%. So, I think 0.9% is roughly the kind of percentage that is there. I think that is what is the real picture of NPA for the company. And that is where we are. So, going forward, I don't think Q4, as you said, and as has been the practice, will be a little better, but I am sure Q1 will again bounce back to 0.9%.

Interviewer: And within the home loan and LAP, any such early indicator, the LAP is seeing higher delinquencies compared to, it always has been the case, but anyway, are you seeing that incrementally the stress is increasing a lot more than the home loan?

Suresh Iyer: Not really, because LAP has been a little on the higher side for us, like our NPA is around 0.65 for housing and for LAP is around 1.5 or little above of that. So, that difference is there. Other than that, not much. But whatever delinquencies have happened is more because of the SMA-0 going up. And that is mainly because, you know, we had that change of regulation wherein advanced EMI that we used to carry, 1-1 EMI or a lot of little advanced, the customers used to pay, there we have not been able, that has changed.

Now any excess that is coming from the customer, even if it is a small Rs. 100 rupee, Rs. 500, has to be adjusted to the principle. So, therefore, what is happening? Even if there is a small charge, some charge debited or annually we like, for example, annually we do this valuation of

the property. So, when the valuation happens, we have to debit the charges. Now that charges customer will not pay.

Now earlier, you know, the little advances which were there, one month EMI could adjust and it would not SMA-0. But now when we debit the charges, customer continues to pay the EMI only. So, then this becomes a slight. So, in December about 770 crore worth of SME 0 portfolio was such where our this thing was less than Rs. 850 overdue. And that Rs. 850 is mostly the check bounce charges or the charges that we levy.

Interviewer: And within the salaried and self-employed, are you seeing any early trend that the defaults would be higher than the self-employed or?

Suresh Iyer: Not really. Not really. Self-employed has been a little more, but as I said, 0.65 is for the salaried and self-employed is around 1.5, 1.6. That trend is there.

Interviewer: Okay, so no incremental change in that. And coming to the Karnataka and Telangana again, so what is the undisbursed sanction in these two states so that when the situation normalizes we can see some spike in the disbursements?

Suresh Iyer: See, in case of Karnataka, in any case what happens is we don't keep a sanction valid beyond 30 days. So, sanctions which took place in October but customer could not do the documentation after 31st December, anyway those sanctions are not carried forward because they lapse.

So, what we carry is a one month's excess disbursement and that is approximately 160 crore which we were carrying on 31st December where the sanction was there but no disbursement was made. This is other than the partly disbursed cases because like self-construction cases or P plus C cases, as and when the construction would happen, the disbursement would be available.

That is different, but cases which were sanctioned, and no disbursement was made is approximately 160 crore and mostly would be in Karnataka, definitely that was there. We were carrying 160 crore.

Interviewer: And any exposure in the properties where there was a litigation over the demolition?

Suresh Iyer: No, we have not come across anything in Telangana you are talking about, right?

Interviewer: Yeah.

Suresh Iyer: No, we have not. So far we have not received any single case of our customer where demolition has happened.

Interviewer: Because this thing had happened in Bangalore also I think the lake around near end around the lakebed came out with some regulation. I think this could repeat in other states also.

Suresh Iyer: See, it is actually happening across. Any state you take, some construction, because corporations are not always very, you know, I wouldn't say clean, but corporations, these things and deviations are happening across. But nowhere it happens where they just demolish.

Of course, even in Bombay, demolitions happen. And in this place it has happened. But by and large, you know, mostly when such cases happen, they do come out with some regularization scheme and say that you have to pay some penalty and then we will regularize it. So, kind of things do happen where people may have to pay some money and get it regularized. But demolition per se doesn't happen.

Maharashtra, it happens and all those particularly, you know, this KDMC and VBMC, these areas are always there, which always come in the limelight, wherever this happens. But other than that, in most states, like Karnataka, Bangalore per se, so many lakes have vanished. And all those places are now full of projects. So, those cases, there is a regularization, some fee, some penalty and then it is pardoned or it is government does it. But demolitions don't happen. Here, I don't know. They first demolished, created an atmosphere of fear. And then they are now stopping the demolition. But, you know, the sentiment does not change.

Interviewer: Did these buildings had NOC?

Suresh Iyer: So, many of the cases, I understand, were having proper approvals by the previous government, Sub-Registrar Office, plan approvals, everything.

Interviewer: But NOC would be very...

Suresh Iyer: NOC, previous government would have given, no? NOCs, anyway, sometimes they take time. But otherwise, building permission, plan, approval, everything is there. They have accordingly gone and constructed and subsequently people have purchased also based on the developer certificates, approvals, everything. And banks and institutions, NBFCs and HFCs have gone and given loans also after verifying all the documents. But tomorrow, just the government changes and they say, "No, this is illegal."

Interviewer: But is there any recent trend where the banks are only disbursing to the properties which only have NOC? Earlier, they were slightly lenient in that respect.

Suresh Iyer: No, I am not sure about that. But, you know, whether they have tightened any norms on that. We are at least not giving and I believe the banks are also not giving to these kind of things. But on the other side, some companies, smaller companies have taken some, you know, legal call saying that even if the, like in Karnataka, e-Khata is not there, if the property payment consideration is passed and if the possession has also been handed over, then they are based on the agreement unregistered agreement, they are going ahead taking and under taking. That also I have heard in some cases. Although we don't take those kind of calls, but some of them do.

Interviewer: So, for us, the NOC is a must or it was...?

Suresh Iyer: No, e-Khata is if it is registration is there, e-Khata is a must. After e-Khata only registration will happen. So, once the registration comes, it comes with the e-Khata.

Interviewer: But in the other non-Karnataka, there is NOC is a must or we can...?

Suresh Iyer: NOC not always, because everywhere it doesn't happen. But if the agreement is registered, then it is okay. NOC, some approvals might be pending, but normally it doesn't happen that way because RERA approved projects and all anyway. And in any way, self-construction, 60% of our case is self-construction. People buy their own land there. There is no NOC, nothing of that sort.

Interviewer: Yes. So, assuming if this situation continues for, say, a longer period, how much is our disbursement target assuming if this situation continues?

Suresh Iyer: See, at the rate at which we are going, as I said, Karnataka also 200, we have already reached by 250 also reached, then I think we are on course for at least matching last year's target of 2,400 crore that we had given, we had done last year in Q4. Originally, after Q2, we were very confident that in Q3, we will be able to step it up to 2,700 in Q3 and 3,000 in Q4. But now, having lost about 400 cores of business in Q3, I think 2,400 will be more realistic in that sense.

Interviewer: No, but that's the near term Q4. I am talking more of the next year.

Suresh Iyer: Next year, I think, we, as I said, except Telangana, everybody is positive already. The mood and the sentiment is already positive. And already, Telangana has come down to a level of just 100 crores per month. So, even if they do 110, 120, it will definitely be positive only. So, next year, we are targeting about 20 to 25% growth in disbursements. So, this year, we are expecting around 8,500 to 9,000 is where we will close in terms of disbursement. So, next year, about 20-25% from there.

Interviewer: The last year also I think the target was same. Obviously, things happen which are not in our control. But is it better to be cautious and have some cautious strategy of the disbursement or you would....

Suresh Iyer: 8,500 is the current year target. So, next year, at least 50% also, if you consider it will be 10,000, between 10,000 and 11,000.

Interviewer: The best case we can do 25% and the worst case we can do 10%.

Suresh Iyer: 15%.

Interviewer: And other thing is our shift from North to South, non-South has been happening clearly and that has been visible. But it's not happening at a faster pace. I mean, it's a little – because with the branch addition, etc. this number is also quite muted. So, how is the plan? Because we have seen the concentration risk is clearly impacting us.

Suresh Iyer: Correct.

Interviewer: So how easy, how early, soon you can diversify to non-South?

Suresh Iyer: See, **this year, in fact, the number is not changing. It is 219 branches** only. But actually, we have opened 10 branches during the year. What has happened is, we also closed some 10 branches, which are earlier operating as satellite offices. Okay, like we had within the city, we had two branches very close by. In Bangalore, we had this RR Nagar, which was very near to Vijay Nagar and all. So, we have merged those kind of branches.

So, there are about 10 branches which we have merged, and we have added 10 new branches. So, already 10 branches have been opened but the number is not changing. Additionally, 15 also is going to be happened. So, technically, we will be opening 25 branches in FY '25. Up to Q3, 10 have been opened, but since 10 have been closed, the number is not changing.

Now, additional that 15 which will be opening now will come. And 11 of them are already interiors and all are going on. So, there are 4 branches. We are almost that also will get done probably by the end of last third or fourth week of March. We will close those also. So, 15 branches will be opened.

Next year also, we can open, you know, we are targeting 15, but we can always open more because this year we are technically opening 25 branches. So, the capacity to open 25 branches is definitely there. All these branches also, which have been opened, the 10 branches, have been in the North and West, whereas the ones which are closed mostly are in the South. We have closed Shornur, we have closed this Neyyattinkara, we have closed this Udupi, we have closed RR Nagar. Then the...

Interviewer: Haveri and Hubli are closed.

Suresh Iyer: Then Haveri and Hubli. Then we had, which is the other one?

Interviewer: Davangere.

Suresh Iyer: Haveri with Davangere, Hubli and Darwadi.

Interviewer: Hubli is a big town.

Suresh Iyer: Hubli is a big town. But Hubli and Dharwad are like twin cities. Very, very close by and we had a very small.

Interviewer: You only had one branch in Hubli and that also you have closed.

Suresh Iyer: Only one branch. No, no. We are there in Hubli. Hubli branch continues. Hubli and Dharwad were very, very close by. We have merged them. So, all the branches which are merged are in the South and all the new 10 branches which are otherwise opened are in the North and West.

Interviewer: And similarly, on the customer segment shift also, non-salaried is growing faster in terms of the mix also it's now close to 29%.

Suresh Iyer: These are the journeys which we have already said that we will be doing. Like, you know, doing a little more of LAP, a little more of self-employed. We will be moving more branches in the North and West. We will be slightly reducing our DSA channel. So, all those things are happening. So, the journey which was this thing that by 20, in the next five years, we want to take this journey. All those steps are already happening.

Interviewer: But this shift towards the non-salaried, do you think our credit cost would also be likely to go beyond, say, 0.7-0.8% or do you think that is very unlikely?

Suresh Iyer: Not very likely. In fact, we are not expecting much of a change. Anyway, 0.9 is there. So, I think we will not take...

Interviewer: 0.9 is the NPA because of the change?

Suresh Iyer: No, because basically whatever is there is the 0.9 only which is impacting our maximum provisioning is happening because of the cross -- And we are getting 47% with the risk weightage. I mean, 47% provisioning. And rest we have to just ensure that the fluctuation in the SMA-0 and SMA-1 is minimized. That is where otherwise our provisioning is increasing. If we are able to have a more stable, like this kind of sudden jerk in SME 0 increasing, impacted our provisioning, ECL provisioning. So, if that is also managed, we will not have this kind of flips in credit costs.

Interviewer: Why do we have 47% provisioning in stage 3? The assets are not similar to the vehicle finance also. So, for home loans, the provisioning seems to be very high.

Suresh Iyer: See, other players are having in the range of 27% to around 35-36%.

Interviewer: Correct.

Suresh Iyer: But it is all, see, ECL is also a matter of what is the kind of assumptions you are taking. Like, we have an assumption that once an account goes into NPA, we will take 5 years for it to actually

come out of NPA. That's an assumption. It may happen before that also. If we reduce the assumption period, then these things will change. Now, the question is, you know, you want to be a conservative assumption you want to take or you want to take a very aggressive assumption and then not, which is not achievable or very difficult to achieve.

Interviewer: So, with respect to the DSA sourcing, clearly you have said that the focus would be on the other channels. So, also we were focusing on the APF channel also. There also the progress seems to be slightly muted.

Suresh Iyer: Yes, in terms of branch expansion or in terms of, you know, this for LAP and SME and all those, CMP, there it is quite progression in terms of the strategy is quite good. But here it is a little slow. But still if I share, our direct sourcing team, which is about 34-35 people, they have sourced almost 4% incremental business in January, which was 3-3.25% in the Q3.

So, what I am saying, this is slightly also moving. We started it not in the first year, we started in the second year. So, like branch expansion, we did it in FY '24 itself and now in '25, and we will continue in '26, '27 also. But this direct sourcing team has started not in '24 but only in '25.

And APF also, what we tried in FY '24, in the later part of it, was not very successful. So, it is slightly slower than, yes, that you can, that is correct.

Interviewer: But what went wrong? If you look at Bajaj Housing, they have been very successful in this particular APF service. For us, what went wrong?

Suresh Iyer: That, see, Bajaj also is giving construction finance. We are not doing construction finance.

Interviewer: Yes, you had mentioned.

Suresh Iyer: That is one point, which is the thing. Second thing is, you know, in terms of the policies and everything, we were not making any payout. We didn't have the provision to make any payout to the builders which now we have subsequently enabled and now we are able to give pass on some, because there also the builders or the sales team does expect something in terms of passing on the leads. So, that all was a learning as we went along. We understood and we changed. So, now we are also passing on a little bit to the developer or to the team for passing on the leads and that is how it is.

Interviewer: And this direct sourcing, this is through the connectors or?

Suresh Iyer: No, no. Direct sourcing is purely our team. So, we have about a 35 member team who are either lateral hires or very few of them are from an internal team, we have moved to the marketing and sales team. They are sourcing direct APF leads and converting the project, the APF projects, the approvals. And two, they are directly sourcing from the market. So, the leads that come say on our website, which used to go to the, that is being forwarded. We have now tied up with some

one or two portals for lead sourcing. So, we are acquiring the leads which come on those portals. And these are being used by this marketing team for conversion. So, they are actually getting fresh leads other than what was earlier coming to us.

Interviewer: Which are those portals which give leads?

Suresh Iyer: We have tied up with Spoctree. Other than that, there are many ones.

Interviewer: Bankbazaar etc.

Suresh Iyer: Bankbazaar, the Paisabazaar, then this 99acres and all of them. So, many of them are there. So, we just tried with one or two of them. We have tried and it is working. So, the team is now only limited to a couple of branches, the North and a couple of branches in Tamil Nadu. So, we are acquiring leads only in those pockets so that we can give to them. Otherwise, you know, if we buy leads in other places, we will also need to have somebody to support them and convert them.

Interviewer: And I believe the payout on this digital leads would be much lower than what we give to DSAs. DSAs would generally be 0.91%.

Suresh Iyer: No, no, no. DSAs, we don't have corporate DSAs. Corporate DSAs charge 1% or 1.5% or 1.25%. We have only retail DSAs, basically connectors, you can say. There our payout starts from 0.45% or 0.4%. It was 0.35% just roughly and going up to 0.7%. So, that is we will be paying 0.45 to somewhere around 0.45% will be the payout to the DSAs. And that also gets amortized over the tenure of the loan.

Interviewer: But the digital leads will be how much?

Suresh Iyer: See, digital is you have to look at the cost of acquisition. How we measure it is, you know, suppose we are getting 100 leads now, for every lead we are paying something. But out of 100 leads, if we are able to convert one, then cost of 100 leads is equal to the cost of acquisition. That's how we look at it. So, right now our, you know, we have about, you know, cost is somewhere around Rs. 100 per lead.

Interviewer: That is still quite small.

Suresh Iyer: There are other portals which are doing much higher. But here we are going for slightly this particular thing which we are doing. They are a little more qualified. We get a little more data from them which helps us to take a more better decisioning before we pass on to our marketing team.

Interviewer: In case of salaried earning, you need a PAN card. Just on data is not very, I mean, salary slip, PAN card. What are the data, I mean?

Suresh Iyer: No, they don't give obviously all these kind of data. But when we look at it, which is the city, what is the income, whether they are really interested, are they looking for a flat, what is their budget for EMI? So, those are the additional queries which are there no? There are leads which come so-and-so person, so-and-so number. That is also a lead.

But then it is absolutely there the chances of a conversion are much, much lower. So, from maybe 300 leads, you may get one conversion. Here, you know, with these kind of leads, you know, out of 100, you may be able to get two conversions. So, even if you are paying instead of Rs. 25, you are paying Rs. 100, it is better.

Interviewer: Off late, now that we are in the beginning of the rate cut cycle, but any noticeable change in the BT out or anything that you would have noticed on the competitive intensity?

Suresh Iyer: Not, it's too early also, but nothing we have experienced now. In fact, normally Q4 is the quarter where a lot of people give a lot of offers at free, zero processing fee and all.

Interviewer: That has always been the case.

Suresh Iyer: Always been the case, but not as much this quarter. I mean, not many have announced so much. We have not seen any kind of this happening.

Interviewer: But at a system level, I found with the RBI data, the housing loan growth is moderating. It's now 11-12%. So, what is the reason? I mean, even if I exclude HDFC, there also there is a bit of moderation. What is the reason for this moderation?

Suresh Iyer: No, you are right. See, in case of housing, there are three parts to it. If you see the affordable, affordable has come down to single-digit growth numbers. So, overall also in the industry, if it was not growing around 12 to 14%, the affordable housing has come down to below 10%, which is a single digit.

Interviewer: Growth.

Suresh Iyer: In the affordable.

Interviewer: What was it last year?

Suresh Iyer: So, last year also it was 10+. It was this also even for the affordable segment. This time, the affordable has also come down to a single digit. So, definitely that slowing down has started happening. And it's purely affordable, it's a pure function of the supply.

Because when the CLSS scheme was there up to 2021, you know, a lot of builders came into this segment, a lot of projects were announced and all. And once it was stopped, the CLSS

scheme, the inertia continued for a little while, but after that, you know, the new supply is not coming. Builders are not going to enter this unless there is a good incentive for them.

Interviewer: And if I have to segregate this at the industry level, customer growth, volume growth and value growth, how much would be the volume growth?

Suresh Iyer: Volume growth right now is not much for us. Whatever has come is by way of value only. Ticket size is going up a little bit. Because we are still roughly in the same range of about 50,000 cases a year. That has not changed much. In terms of that, there is not much of a change. This year, whatever has come is value growth.

Interviewer: What is the reason, if you would have dissected it? Even for the industry, the volume growth is not happening. Is the volume growth in the very top and high category?

Suresh Iyer: It is there. In fact, if you see the growth post-COVID happened more in the Prime and the Super Prime segment only. So, obviously the number of transactions were not as much. So, it is mainly because of that.

Interviewer: And also the value-led growth can also not continue if ticket size is unlikely to grow, then it's starting to reverse. So, for you, the best case would be then disbursement growth. So, obviously, next year, there is a low base. But at a nominal growth level, then it would be like 10% disbursement growth if you are not adding branches.

Suresh Iyer: So, I will tell you, from my experience at Groove, if you have to grow at 20% of disbursement growth, then volume growth has to be around 8-10%.

Interviewer: Correct.

Suresh Iyer: 8-10% volume growth and plus a little bit of value growth and some productivity improvement or whatever will eventually get to 20%. So, today, we also have to grow at 15% or to 25%. We will also have to at least grow 8%. And that will come when we go into the Tier-2 towns and all, which is what we are doing. Because cities, what is happening is the value is also growing.

If you look at all the bigger markets like Bangalore and Hyderabad, where we were doing, most of the price was also going up phenomenally. So, that was always fueling the growth and it was coming. But real volume growth, if you have to do, it has to come from the ticket numbers in the Tier-2 towns.

Interviewer: But are you ready for this? Because they say supply would be very less over there. You need a lot of marketing and your own staff to do work in the Tier-3 towns. So, you need to have that manpower addition also. You need your own marketing people in those branches.

Suresh Iyer: Manpower, we will have to add. That is obviously there. As I was just explaining earlier to someone, you know, we have a productivity benchmark of about five cases per staff per month. We are doing about 900 people are there now. And last year, it was around 840 or 800 and something number was there. On the ground, I am saying. Not the total staff. On the ground staff. This year, it is a little above 900. So, if I look at the average staffing, and we are doing about 50,000 cases a year, then effectively it comes to 5 cases per staff per month.

Interviewer: Correct.

Suresh Iyer: That is how it comes to.

Interviewer: So, clearly you need to, the growth in volume would happen if you add both the branches as well as the manpower.

Suresh Iyer: As well the manpower. And manpower we will have to keep on adding. Because higher productivity beyond 6 and 7, I mean 8 is the maximum. Above that it will be a little worrying.

Interviewer: How will you even reach 8? Because even though...

Suresh Iyer: No, no. There are branches who are doing 8. And then, consequently, there are branches which are doing 2 and 3 also. So, eventually, it comes out to a 5. But I am saying, individually also, if a branch does more than 8, then there is a little bit of a concern. Because then there could be some compromise in the paperwork, in the audit observations could increase, things like that.

Interviewer: And with respect to the ITRIA transformation, which was supposed to happen next year, I suppose, so do you think there could be any kind of disruption, mid-term disruption due to the same? And will that impact our disbursement guidance?

Suresh Iyer: See, we at least have been trying to minimize that entire disruption because in RFP itself, one we said we will have a same vendor has to, the LOS and LMS have to be from the same vendors. Therefore, the options like LOS of this one, Salesforce and LMS from say FLEXCUBE or things like that, combinations are not there. So, what IBM today is going to bring is a LOS and LMS both from Pennant, which is already operational in Bajaj and all. Okay. So, that automatically limits the number of problems that can happen. Quite a few problems which come from integration issues already get eliminated.

Second thing is in terms of the RFP itself, we have stipulated that there has to be a specific detailed plan for training plus IBM has to ensure the SOPs and all the workflows and everything are very well detailed out so that when we give training and hand holding to the boys also it becomes much simpler. So, these kind of things we have already incorporated into our RFP and it is already there so that it is minimized. Still a little bit could happen because resistance to change and people not being able to adjust can always happen. So, we will have to look at it in Q3 when we will have to maybe, so that is one factor which could reduce it from 25 to 15 maybe.

Interviewer: Sorry, what?

Suresh Iyer: The growth rate from 25 to 15, if at all. We are saying that the growth could be 15% to 25%. So, ideally, if there is no disruption, it can be 25%. Maybe if there is a disruption and it goes on for a little longer, maybe it could come down to effect for a quarter or so.

Interviewer: And can anything else impact the disbursement, like attrition at the branch level? Maybe anything other than that I am not able to think, anything that can impact the disbursement?

Suresh Iyer: See, today, I think disruption of IT is the only one factor which is hanging, which is a major thing which is going to be impacting in the Q3 of next financial year. That is one major thing. Other than that, today, already we have taken a big hit in Telangana. So, from here, I don't see a possibility of it going further down.

The momentum in other states is already there and the journey. And yes, there was a bit of resistance or change or this thing on whether to go ahead or to go ahead in terms of this SENP, LAP, in terms of all these.

But now we have kind of overcome that because now the teams are also convinced about these strategies. Branch expansion also we have now already done it and we are seeing that both Telangana and Karnataka are getting hit in the same quarter. Obviously, it is quite visible to everyone. So, even the team is very convinced that yes, we need to have other branches also. We cannot only be South-based HFC. So, I think some of these kind of things which are there are kind of now understood, well understood by the team also.

Interviewer: And coming back to the rate cut, 25 bps rate cut has happened, firstly, have we already passed it on? And given that selling to the PLR that determines the home loan rates, so, when will the repricing happen for this?

Suresh Iyer: We have not passed on anything as yet because we ourselves have not experienced anything as yet. The rate cut has just happened. And obviously, depending on the agreement, some are at the end of the month, some will be at the time of the next reset in a quarter. But 60% of our liability side, 60 to 65% is where the impact will happen within a quarter's time, which will be the bank term loan 56% and the 7% in terms of the CP. Okay. The CP as and when we reprice, we will get the 10 bps, 15 bps benefit in the CP rate.

Same way, you know, in the banks as and when the reset happens or as and when the month end happens and the next month, they will see the impact in terms of the price for all this. Now, as we see the benefit, we are not compelled, or we are not bound to pass on an equivalent rate benefit to our customers because we don't have the EBLR-linked pricing.

So, in our case, as and when we experience on the liability side, we will pass on to the customer on the asset side. Now, 60% of our books, we are going to experience some reduction in our borrowing cost.

Interviewer: And that will happen in one year? I am sorry, I didn't get. One year you said, 60% of liabilities...

Suresh Iyer: No, in about a quarter's time.

Interviewer: In a quarter.

Suresh Iyer: About a quarter's time. Because CP is also once a quarter, third 90-day CP, we will reprice it as and when it comes. So, we will probably be passing on about 10 bps, maybe a quarter down the line or two, three months down the line, we will pass on probably 10 bps to the customers because that is what we will experience by then on our liability side and that is what we will pass on to our customers.

Now on the asset side, today about 20% of our loans are quarterly reset, on quarterly reset. So, there also, as and when they are during the quarter, it comes for reset, it will happen. So, somebody who has taken a loan in the month of April, the resets happen on April, July, October, and January. And somebody who has taken in May will be May, August, and so on. So, you know, as and when once you pass on the 10 bps, 12, in the current quarter, the 20% will pass on. The remaining...

Interviewer: Sorry, sir, 20% this year?

Suresh Iyer: Right now only 20% are quarterly reset. The remaining are annual reset. Somebody who had a last reset in November and is in annual reset, the next will pass on in November only.

Interviewer: Okay, so they will change to quarterly reset in November.

Suresh Iyer: Unless they come forward and say that we want to move to quarterly reset, then we will immediately convert them and they will move into a quarterly cycle from there. But as of now, only 20% are going to quarterly reset.

Interviewer: So, they came to you for the quarterly reset or you automatically?

Suresh Iyer: No, two things. One, we changed our policy from 1st of January 2024. So, thereafter, all incremental loans are quarterly reset. We wrote to the customers and sent an SMS that you can come and convert your loan also into quarterly reset. But since no rate cut has happened in the last one year from January to December or January to January, no customer or very few customers opted for it. But now that the rate has reduced, they will obviously come and inquire and we will have to say, "Sorry, you are on annual reset, but you can immediately convert to

quarterly reset, and you can take the advantage." So, that is when we expect this 20% to start going up to 30, 40, and 50%.

Interviewer: Understood. So, in this quarterly reset as well, the reduction in the rate will be a function of how much PLR is reduced.

Suresh Iyer: How much PLR is reduced, yes.

Interviewer: So, are there, just pardon me, are there a quarterly PLR and annual PLR or only one PLR?

Suresh Iyer: No, there is only one. And we change it. It will be changed. So, if people are on quarterly reset, then during the quarter, their rates will change. Suppose we reduce by 10 bps, during the quarter, it will change. For the remaining 80%, if they don't convert to quarterly, whenever it is...

Interviewer: Whenever it is due.

Suresh Iyer: Due during the year, it will be passed on.

Interviewer: So, what it was implying is, whatever the 25 bps benefit we get on the liability side, we will reduce the 10 bps PLR.

Suresh Iyer: Yes.

Interviewer: So, it's still...

Suresh Iyer: Spread is not going to be a problem.

Interviewer: Spread will not be a problem. But when there was a rate cycle was on the increasing side, then we had that benefit in the...

Suresh Iyer: No, but we had a disadvantage. Because when the rates were going up, on the liability side, everybody increased. But on the asset side, we only had an annual reset at that point in time. So, there was a lag effect for us to, you know, even if we increase the rate of interest on the asset side, suppose somebody was in an annual reset and it comes only in November, so we would be able to change their rate only in November. So, that was the problem.

So, in the increasing rate cycle, we were at a disadvantage. Therefore, our spread, which was up to 2.61 or something, 2.61 or 2.71 came down to 2.31. Because, you know, we had a lag effect on our asset side, whereas on the liability side, within a quarter, everything increased.

Interviewer: Our spread is 2.6.

- Suresh Iyer:** Right now it is 2.56 or 58. I am saying, if you see the previous cycle, our spread had come down to 2.31% was the lowest.
- Interviewer:** So, what you are saying, in this rate cut cycle, our spreads will not go down or it may even improve.
- Suresh Iyer:** It could improve. If there is an asset side, people don't convert as fast from the annual to quarterly, then we may even benefit from it.
- Interviewer:** And any thought of linking it to EBLR? I mean, some of the liabilities are already linked to the EBLR, I believe.
- Suresh Iyer:** No, that is correct. But frankly, it is not possible. Because unlike our NHB itself, which is about 20%, 19-20%, there it is annual reset. Okay. And there also it is not linked to EBLR. Even bank term loans we have been able to give it linked to EBLR. We changed it linked to repo rate.
- But many banks or many other banks are, if you ask them, they are little reluctant to give it linked to repo rate. They always prefer to give a term loan to us linked to the MCLR. Because that is something in their control, they don't have to equally pass on to us, if it is linked to a repo rate.
- So, what is happening on the liability side, it is not a retail borrowing. It is all bulk borrowing. So, it is not necessarily linked to EBLR. We have chosen and we have negotiated with banks to convert into the repo rate. But otherwise, it is not mandatory. So, today, if on the asset side, we also mandatory have to convert everything to EBLR, then we will have a problem.
- Interviewer:** So, that option is also not given currently?
- Suresh Iyer:** No, we at least wouldn't want to give it unless it is mandatorily required or there is a regulatory compulsion. But regulatory compulsion will not happen. Because earlier this discussion, I believe, when this was there, that whether to allow or not allow, the regulator chose to instead say that fine, we will not give this, make it a compulsory thing. Instead, we will remove the prepayment charges. So, thereby allowing the customer to choose, okay, if X and Y is not giving, we will move to lender V.
- Interviewer:** Currently, there are no prepayment charges.
- Suresh Iyer:** No, there is a floating rate. There are no prepayment charges.
- Interviewer:** And just one question from the user. Now, RBI has not yet decided on the subsidiary overlap, but Canara Bank did indicate about, hinted maybe, that they are open to divestiture if it's the right valuation. So, how do we look at if both the Canara Bank and Can Fin are involved in the.... Any indication that RBI would have given?

Management: Sir, I just told that actually one IBA committee has been formed, subcommittee, and they are looking into it. Probably they will take around five to six months to decide what is to be done regarding the overlapping of the business.

Second, the circular which RBI took out, in that letter there are contradictory directions. One is that if housing is a subsidiary, housing is an activity, then it has got an exemption.

Interviewer: It's a housing....

Suresh Iyer: In the circular, there is one place where it mentions they can continue, these businesses, including and housing.

Management: And again, in another, subsequently, again, certain timeline has been said that they should be looking into it. But it will take some time whatever decision that the regulator will take in this matter, the recommendations and all. So, let us...

Interviewer: As this topic came again and the new Governor, the NBFCs...

Suresh Iyer: I don't think that we are not aware of any discussion or what is the view of the governor. But this committee is already working, this IBA committee. So, they will probably give some suggestions. Then the RBI will take a call. And since there are quite a few contradictions or different viewpoints emanating from the circular, so we don't know how it is to be interpreted.

And as for this question, frankly speaking, it came even in March last year. In March earnings call, somebody asked. Raju sir gave the same answer. Fine, we still see an upside when the valuation goes up. Somebody asked for giving a number. So, he said, fine, we do in four-digit. Same time this time also. In fact, I believe that post this answer also, they wanted to further pursue why and this and that. So, he just deviated and didn't get much into it, go into much discussion on this point afterwards.

Management: Generally there has been no such direction from the parent bank regarding this matter. Absolutely nothing.

Interviewer: And even the rating agencies are also not asking.

Suresh Iyer: No, rating agencies obviously in the rating always say this is this thing, and we have also taken into consideration the parentage, strong parentage. So, definitely that is one of the factors. So, worst case scenario if it does happen and if regulation does come in, then Canara will have no option but to offload. And in that case, max worst case again would be that rating agencies might say one notch down or something, although I personally feel there is no reason why they should do it.

Because on a standalone basis, a consistency of performance in terms of profitability, in terms of earnings details, in terms of continuity of irrespective of the change in management top person and all, the continuity in terms of the business strategy, the solid performance in terms of the quality of business, the credit costs and everything, I think all these indicators, I mean, you can't have anything better than that.

All these should give a comfort to a rating agency, although they always do write that, you know, we have taken a view of the company and we have also taken, given a little weightage for the parentage. You know, how much weightage? Whether that weightage is sufficient? But from the rating agency's point of view, two particular areas which were slightly a bit of a concern on an individual basis were one, gearing and second was our reliance on short term.

Now this was the discussion which I had with them two years back, immediately after taking over. And that time I very clearly said that if that is the case, we would definitely bring down the gearing. And from that point, which was 8% plus, we have brought down the gearing to 7.05. And at the rate threat which we are growing, in another two quarters, probably we will be at 6.75x gearing.

Same way, 11% was the CP borrowing, short-term borrowing through CPs, which has now come down between 6% and 7%. We are not keeping more than one quarter of disbursement in our as CP borrowing. It is only around 2500 crores we are keeping it. That is like one quarter's disbursement only. So, there also it has come down to 6% to 7%. So, on the balance sheet, whatever in terms of ALM, in terms of risk that was there, that also we have kind of minimized or completely given them comfort.

So whatever on the balance sheet side, they had a little concern, that also is taken care. So, there is no reason, according to me, why they should continue to see any risk in this. And if it is mainly because of a regulatory change, which is brought about, then that should not be resulting in a penalty to the institution, is what I believe.

Interviewer:

And this final question from my side is, some of the affordable housing companies have seen a slight inch up in the credit costs, 5 odd bps in this quarter. Do you see that this trend increasing from here onwards for the affordable peers?

Suresh Iyer:

See, it is definitely an impact because also this microfinance chain. Now, if you look at the affordable segment, then compared to a customer of an affordable housing finance company, vis-a-vis that of a mid-size segment or medium segment company like ours, which is mainly the 20, 25, 30 lakh segment, or to a bank, the maximum impact obviously is going to be to the affordable housing finance companies only, because the overlapping of customer of an affordable housing company with a microfinance customer is more.

Whereas compared to a bank's customer, which is having a 40 lakh ticket size, average ticket size, the chances that a customer is taking a 40 lakh home loan would have taken a microfinance

loan is very, very limited. Whereas somebody who has taken a 8 lakh, 10 lakh, 12 lakh affordable home loan, it is possible they also would have an exposure in microfinance.

So, that overlap is possible. And that is what I think was reflected in the delinquencies for affordable housing finance companies. Compared to them, the impact on us will be much lower. And compared to us also, for larger banks, which are doing higher ticket size, it will be even lower.

Interviewer: For you, what is the overlap? Like how many...

Suresh Iyer: Very, very less.

Interviewer: For you what it will be in personal loans and other loans?

Suresh Iyer: That personal loans is there. In fact, what we have done is, we have already signed up with CRIF High Mark for this study. Although, you know, we have not seen any early indicators, but we are just waiting for that report also.

Interviewer: As of now, they are not given any, like how many?

Suresh Iyer: No, obviously, it is a paid service. We have to pay and take it. So, we have done that also with CRIF High Mark.

Interviewer: What is the action that you will take? Will the customer account back on?

Suresh Iyer: No, I don't think so. Because see, personal loan is always going to be there. Okay. As long as it is not more than three or four, we may look at it. But I doubt whether, because at the time of onboarding itself, we see that if there are more than two personal loans or more than three, then we do take cognizance of it in the onboarding.

Interviewer: And just even if you know there is three personal loan, what action can you take?

Suresh Iyer: No, we can't do anything for our existing customers. But going forward, we can look at it. But then, the fact is, today, even if it is there, say for example, it is not reflecting in our delinquency also today. So, there is no reason to believe that it will be there. But still, we have taken out that study. And maybe we will see if there is really a linkage.

Because sometimes, you know, the broader picture, the numbers don't emerge. But when you slice and dice, you might come across some area where you may just see that, oh, somebody, when it is coming to the fourth loan, then it becomes a tipping point. So, maybe we will stop at three loans.

Interviewer: But you are anyway doing it at the time of sanction, you are looking at...



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Suresh Iyer: Onboarding we are doing.

Interviewer: For the LAP, etc.

Suresh Iyer: Yes. At the time of onboarding, we are doing it.

Interviewer: Right then. Great, sir.

Suresh Iyer: Okay. Thank you.